



**APPROVED 06-21-10**

**CITY OF SCOTTSDALE  
AUDIT COMMITTEE**

**REGULAR MEETING MINUTES  
FRIDAY, MAY 14, 2010**

**SKYSONG CONFERENCE ROOM 365  
1475 NORTH SCOTTSDALE ROAD  
SCOTTSDALE, AZ 85251**

**PRESENT:** Councilman Robert Littlefield, Chair  
Vice Mayor Lisa Borowsky  
Councilwoman Suzanne Klapp

**STAFF:** Kyla Anderson, City Auditor's Office  
Joyce Gilbride, City Auditor's Office  
Joanna Munar, City Auditor's Office  
Sharron Walker, City Auditor's Office  
Anna Henthorn, Finance & Accounting  
David Smith, Finance & Accounting  
Jay Ducote, Fire Department  
Bob DeLeon, Fire Department  
Steve Randall, Fire Department  
Brian Sturdivant, Fire Department  
Willie McDonald, Fire Department  
Steve Randall, Fire Department  
Madeline Clemann, Planning, Neighborhoods & Transportation  
Dave Meinhart, Planning, Neighborhoods & Transportation  
Connie Padian, Planning, Neighborhoods & Transportation

**OTHERS:** Karen Lazinski, LarsonAllen LLP  
Carter Smitherman, LarsonAllen LLP  
Michelle Angle, Professional Medical Transport

## **CALL TO ORDER**

Chair Littlefield called the meeting to order at 12:00 p.m. All Committee Members were present.

### **1. Approval of Minutes, Regular Meeting, April 26, 2010, Executive Meeting, April 26, 2010**

Vice Mayor Borowsky moved to approve the minutes of the April 26, 2010 regular and special meetings. Seconded by Committee Member Klapp, the motion carried unanimously with a vote of three (3) to zero (0).

### **2. Discussion with LarsonAllen LLP representative regarding the scope and timing of City's Financial and Compliance Audit for FY2010**

Mr. Carter Smitherman of LarsonAllen LLP described the scope of the upcoming audit. Standards used are generally accepted auditing standards, Government Auditing Standards and, for the federal compliance audit, the auditing standards issued by the Office of Management and Budget (OMB). The firm will give an opinion on the financial statements, which is reasonable but not absolute assurance that the financial statements are materially accurate. They will give an opinion on compliance with the requirements of major federal programs. The auditors will test internal controls, conduct interviews and make observations. However, they do not give an opinion on controls. They merely assess risk in accordance with generally accepted auditing standards. The firm's procedures are not designed to detect fraud. However, Mr. Smitherman assured the Committee members that if the auditors discover fraud or any other significant matters during the audit they would bring it to the attention of the appropriate level of management and to the Committee.

Preliminary compliance work is set to begin next week. Because the City received various Recovery grants, there are several new Federal programs. A single audit of six programs is required this time, which is more than usual. This work is scheduled for the remainder of May with a third week in June if necessary. The financial statement audit is scheduled for September. That work will take three to four weeks and the opinions and reports will be issued in October.

Chairman Littlefield inquired which new programs require a single audit. Mr. Smitherman said the Single Audit Act requires the audits if the City receives over \$500,000 of federal expenditures for any program. He chooses the programs based on dollars involved. The OMB has issued guidance that all programs that have any Recovery monies, no matter how minimal, are considered high risk. Normally the auditors look at the City's Section 8 program every year, although they have not had any significant issues or findings in the past eight or nine years. Because the program receives no Recovery money, they consider it to be low risk and that program will not be audited this year.

Ms. Anna Henthorn of Finance and Accounting advised that their goal is to publish the comprehensive annual financial report (CAFR) around November 15.

Mr. Smitherman told the Committee that although their procedures are not designed to detect fraud, they do make inquiries about fraud. He inquired whether the Committee members had any knowledge or allegations of fraud. The Committee members responded that they did not. Mr. Smitherman asked what their process is regarding such

instances. Committee members indicated that the City Auditor's Office would be charged with conducting an investigation, which they would review.

### **3. Discussion and possible direction to staff regarding Audit Report No. 1004, Trolley Services**

Ms. Kyla Anderson of the City Auditor's Office said they conducted the audit of trolley services to evaluate the efficiency and effectiveness of the program, including compliance with the key performance requirements of the contract.

Trolley operations and maintenance are outsourced to a local trolley operator, while the City owns and fuels the vehicles. Total cost of the program was approximately \$3.3 million in the last fiscal year and is expected to be approximately \$2.8 million this year.

Audit work led them to conclude that better trolley services data is needed. Ridership data was only retained by the contractor for a short period of time. The limited records available indicated the reported ridership data may not be reliable. Additionally, information presented to Council for trolley contract approval did not provide the City's associated costs for the program. Further, careful data analysis is needed to consider whether more cost-effective vehicles could be purchased for the neighborhood routes.

Second, contract terms have not been properly enforced. City staff made an advance payment of \$222,000 to cover the contractor's annual insurance payment. However, this cost is to be paid as part of the monthly fixed fee the City is paying the contractor. The trolley operator is reducing semi-monthly invoices to offset this advance payment. Additionally, over the last two years, the City paid the trolley contractor the full amount it received for the resort trolley services. These amounts total approximately \$20,000 more than the contract rate allowed and resulted in the City not being reimbursed for trolley fuel and depreciation costs. During the same time period, uncorrected contractor billing errors resulted in the City owing approximately \$19,000 to the contractor. Finally, the auditors noted that the City has been paying the vendor twice a month although the contract provides for monthly payment. This negatively impacts the City's cash flow.

The third area the audit addresses is that improvements are needed in contract administration. The contract administrator agreed to changes in trolley operations without documenting the City's and vendor's agreement to the new terms. Additionally, reports required by the contract, including annual financial information and customer comments, were not obtained. Transit management has agreed to the recommendations made in this report.

Committee Member Klapp inquired whether Transportation would consider using smaller vehicles for the neighborhood routes. Mr. Dave Meinhart said staff would be looking at this as part of the overall program over the next six months.

Chairman Littlefield recalled that when the trolleys were chosen, their appearance was a major factor. Mr. Meinhart said staff would look for a more efficient vehicle that is more user-friendly for people with disabilities, while still retaining some of the appearance of a trolley. He is working with the regional transit authority to find a funding source.

Committee Member Klapp said the neighborhood circulators are for a different purpose than the trolleys that attract tourists. Appearance is less important than efficiency. Chairman Littlefield noted that there is a cost associated with having two different kinds

of vehicles. In reply to a question by Committee Member Klapp, Mr. Meinhart said the oldest trolley has been in service for seven years. They last approximately ten years. Committee Member Klapp said as trolleys need to be replaced, staff could look at changing to a different vehicle.

Vice Mayor Borowsky suggested putting out an RFP for more advanced technology vehicles. Mr. Meinhart said this is one of the things staff is looking at. The City's regional partners procure more vehicles than the City does and will be able to assist. Hybrid vehicles have become easier to maintain than they used to be, and run very quietly. Their goal is to find something that feels unique to Scottsdale but is easier to maintain, more neighborhood-friendly, and better meets ADA standards.

#### **4. Discussion and possible direction to staff regarding Audit Report No. 1009, Ambulance Contract**

Ms. Joyce Gilbride reviewed the report. The City contracts with Professional Medical Transport, Inc (PMT) to: (1) provide ambulance services; (2) pay the City when a firefighter or paramedic provides advanced life support (ALS) for a transported patient; and (3) reimburse the City for staffing up to four PMT ambulances with City firefighter/EMTs and Paramedics. The objectives of this audit were to determine whether PMT complies with each of its contracts and to identify improvement opportunities in contract administration. PMT met its responsibility to hold a State granted certificate of necessity, maintain specified levels of insurance, provide a letter of credit to guarantee performance, and made several clinical enhancements to Scottsdale's emergency medical services program.

Although PMT is generally in compliance with most contract terms, response-time requirements were not always achieved, and certain aspects of contract administration and contract terms could be enhanced. Among the areas noted for improvement, the first relates to contract terms not being monitored or enforced. Incorrect application of contract terms allowed emergency response time performance to be misstated. Committee Members were directed to page 9 of the report, which contained a summary of PMT's performance for the audit period. Additionally the City did not bill \$95,000 due from PMT for FY 2007/08 ambulance staffing. Finally, some emergency medical services program enhancements have not been provided by PMT, and some reporting requirements were not met.

With regard to improvements in contract terms, the City may lose potential reimbursement of \$70,000 for contract administration costs, due to the way the three contracts were recently extended. Ms. Gilbride explained that if the contract for the ambulance labor service had not been extended, the City would have had an opportunity to collect \$70,000 annually in contract administration costs. Additionally, the contract for the ALS fees the City receives from PMT could have contained an escalation clause.

Finally, there is an ability to make changes to the contract scope of work without bringing the changes to City Council. In response to a question from Chairman Littlefield, Ms. Sharron Walker, City Auditor, clarified that this is not the typical way City contracts are written. Fire Chief McDonald has told the auditors that he would keep Council apprised of any significant changes made to the contract scope of work. Ms. Gilbride stated that management concurred with the findings.

Mr. Steve Randall of the Fire Department acknowledged that much of the contract language does not necessarily reflect the intent when the contracts were developed. Conditions have changed since the contract was developed. Staff has already made significant progress in developing tools to better monitor the agreement, especially with regard to response-times. They are in agreement as to how they will proceed.

## **5. Discussion and possible direction regarding the status of FY2009/10 Audit Plan**

Ms. Walker reviewed the summary of the current status, noting that audits and projects are all up to date. As previously noted at the April meeting, the Special Event/Off-Duty Coordination audit will probably not be ready for the June meeting, but the other three reports should be.

In response to Committee Member Klapp's April request, Ms. Walker reviewed the last five years' audits for cost savings/revenue enhancements and has provided a report listing those identified.

## **6. Discussion and possible approval of the draft FY 2010/11 Audit Plan**

Ms. Walker discussed the draft audit plan provided to the Committee. In the first section are the ongoing audits that will be completed next year: Energy Billing audit, which is being contracted out, and the Special Event/Off-Duty Coordination audit.

The next section of the plan lists recurring activities, including the audit recommendation follow ups, periodic Cash Handling audits, and e-verify audits. The e-verify program is included because state statute requires cities to periodically test their contractors' compliance with the requirement to use that program.

The proposed section lists audits that are currently proposed for next year. However, the section labeled contingency contains proposed audits based on suggestions the Committee made in April. The highest priority audit topics include the Indirect Cost Allocation, Fleet Management, the Parks & Recreation Department's Intergovernmental Agreements (IGAs) with School Districts, Overtime Pay, and IT Controls. In particular, Ms. Walker noted that Parks and Recreation has requested the auditors help them review the IGAs and propose improvements. Other items in the proposed list could be switched with audits on the contingency list if the Committee prefers some of those items be given more priority.

Chairman Littlefield asked whether all the items on the proposed list would constitute a full workload for the office. Ms. Walker confirmed that it would. If the Committee wants an audit from the contingency list, something would have to be removed from the proposed list. In further discussion, Ms. Walker clarified that the audit of Housing Programs on the contingency list would focus on internal processes and controls, as LarsonAllen LLP has been reviewing compliance with applicable Federal requirements.

In reply to a question by Chairman Littlefield, Ms. Walker confirmed that an outside consulting firm conducted an audit of Employee Health Benefit Claims in 2006 and 2008. The 2008 audit recommended that the City review more thoroughly how member eligibility information is being transmitted. The Benefits Manager agreed it is about time for another such audit but he is not proposing it until possibly 2011/12. Chairman

Littlefield said that the concept of self-insuring is to save money by keeping a closer watch on claims. Ms. Walker clarified that the City pays Aetna to process the claims; an audit would check on Aetna's performance. This audit would be best done by an outside contractor, managed by the Auditor's Office rather than by the Benefits group.

Vice Mayor Borowsky said she had requested the Police Department audit as she feels it is time to do that. She noted that on the proposed list, the Tax Audit Assessments and Collections were audited in May 2009, and Construction Contracts were audited in August 2009. She feels the police audit is a higher priority. She is particularly concerned with the staffing model and management practices. Chairman Littlefield recalled that in 2002 a consultant produced a staffing model. Ms. Walker said the proposed audit would look at that model and how it is being used, if good data is being input and the results are accurate. She cautioned that a complete audit of every aspect of the Police Department would be a major undertaking requiring much more time.

Chairman Littlefield noted that the issues Vice Mayor Borowsky is raising are questions of policy and not something that the Auditor's Office can address. Vice Mayor Borowsky said her main concerns are response-times and the police budget with regard to staffing. Ms. Walker shared that she has audited a similar staffing model before joining the City, and staffing costs are the major component of the police budget. In response to Committee Member Klapp's query, Ms. Walker estimated that two auditors could work on this audit for two months, which is a typical audit project length.

Vice Mayor Borowsky said she considers the audit of the Prosecution Division that she had requested a lower priority than the Police Department audit. Ms. Walker said this audit might take a little longer because auditors are not as familiar with how the division works.

Vice Mayor Borowsky said that the Economic Vitality Department was recently audited, so she was fine with removing that request. Ms. Walker provided the last audit report to her and Committee Member Klapp.

In response to Chairman Littlefield, Ms. Walker said she had put Public Defender contracts on the list to focus on how the City is monitoring the contracts and eligibility for the services. The Public Defender is contracted through the Court so this specific area was not covered in the related audit of outside law firms done recently.

Chairman Littlefield noted that due to potential litigation it might be not be the best time to audit telecommunication utility agreements. Ms. Walker concurred, noting that is why it is towards the end of the list.

Discussion ensued on whether to take any suggested projects from the contingency list and remove audits from the proposed list. Ms. Walker confirmed that the proposed list is roughly ranked and that the projects below IT controls could be changed at the Committee's preference. Chairman Littlefield asked her which projects she would remove from the proposed list. She replied that she would take out the audit of Printing and Graphic Services from the first page. That is probably equivalent to the adding the audit of Employee Health Benefit Plans.

Ms. Gilbride said the audit of Employee Health Benefit Plans cost the City about \$50,000 last time. Ms. Walker expressed surprise that the insurance fund did not pay for that audit. Chairman Littlefield said the City would have to increase the Auditor's Office

budget accordingly, as this would be worth doing. Ms. Gilbride and Ms. Walker noted that although the Benefits Manager felt there were no significant findings from the previous audit and the next one could be done in FY2011/12, they did not agree with that assessment. Chairman Littlefield pointed out that the Committee will be making recommendations for Council approval and they can make the budget adjustment as part of their recommendation.

Mr. Smith commented that one of the highest priority items is the Indirect Charges that go into the General Fund from the enterprises. Mr. Smith said they will be making some changes, whether or not an audit is conducted. He wants to work with the Auditor's staff to come up with a revised program for allocation. He clarified that this will not save the City any money. He said there is not much value in auditing the existing program as he has already determined that it must be overhauled. He stressed that he does not want to weigh in on what the audit program should be, but wanted them to be aware of this. Chairman Littlefield suggested that the Treasurer's Office should recommend policy changes for Council approval, with an audit conducted a year later. Mr. Smith was not certain that Council approval was required, although he concurred that it should be. Ms. Walker said her understanding was that originally the City Auditor developed the method used to allocate indirect costs to the enterprises, but over time it became more of a way to move monies from the enterprises into the General Fund.

Committee Member Klapp inquired about the suggested Meter Reading audit. Mr. Smith said about 3,000 homes have electronic meters. The program is proceeding slowly in beta testing and will take years to implement fully. Committee Member Klapp suggested that audit could be moved out a year. Ms. Walker said she did a meter reading audit when she worked at a utility company and determined that they had more meter readers than necessary. Another question to look at is where and when electronic meters are being installed. If the audit is done in the next fiscal year, they would be able to make recommendations about program implementation. If the program has worthwhile benefits, perhaps the City should move more rapidly.

Noting that at the next meeting the Committee will need to make recommendations to City Council, Chairman Littlefield directed Ms. Walker to revise the list to take the Committee's input into consideration while being doable for the auditors. Ms. Walker enumerated the audits the Committee is requesting as follows: the Prosecution Division, the Housing Programs, Employee Health Benefit Plans, Police, and Public Defender Contracts. Vice Mayor Borowsky noted that the Auditor's Office lost a position in the budget cuts and perhaps more auditors are needed. Chairman Littlefield agreed this is a question that needs to be brought up, and should perhaps be raised when they bring their recommendations.

## **7. Discussion of agenda items for next Audit Committee meeting**

Ms. Walker said the Special Event/Off-Duty Coordination audit on the draft agenda will likely not be presented at the June meeting. Chairman Littlefield noted the Committee will be voting on next year's Audit Plan so it can go to Council before the break.

### **Public Comment**

No members of the public wished to address the Committee.

**ADJOURNMENT**

The meeting adjourned at 1:08 p.m.

Respectfully submitted,  
A/V Tronics, Inc. DBA AVTranz.